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DEPARTMENT FOR EUR/NCE, EB/IFD/OMA, AND INR/EC  
TREASURY FOR ANNE ALIKONIS

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SUBJECT: KOKA ON REFORM, RUSSIA, AND VISION FR FUTURE

REF: BUDAPEST 1237

Classified By: DCM Jeff Levine for Reasons 1.4 (B) and (D)

1.(C) Summary and Comment: Economic Minister Koka presented a confident view of the future in a far-reaching discussion with Ambassador Foley. Upon his resignation expected by December, Koka plans to gear into campaign mode as party leader while remaining part of an intimate Prime Minister Gyurcsany Cabinet-level steering group. Koka promises to retain a lead role in transparency/anti-corruption issues, and appears more determined than ever to lead his party with a reform-, competition-, and human rights-oriented, transatlanticist program. Koka reflected both on the strong ideological basis of his party and on the very pragmatic considerations that give liberal democrat SzDSz and the Socialists every reason to maintain their governing coalition. He supports basing C-17 aircraft at Papa.

Koka exhibited not only a steely determination to succeed in the current coalition and next election cycle, but a strong commitment to deep reform, transparency/ fighting government corruption, and working for alternatives to Russian dominance in energy and other areas. End Summary and Comment.

#### Coalition: Big Picture and Harsh Realities

2.(C) Minister of Economics and SzDSz party president Janos Koka, Member of European Parliament and SzDSz foreign affairs chief Istvan Szent-Ivanyi, and Economic State Secretary and Ambassador-designee to Italy Miklos Merenyi set a strong ideological tone in a relaxed August 2 lunch with Ambassador Foley. With both the Socialists (MSzP) and leading opposition party Fidesz "populist parties," Koka argued that minority parties are the only hope for sensible, principled governance in Hungary. Highlighting "liberal" ideals--competitive markets; transparent government; broad support for human rights; and a transatlantic orientation building on existing commitments to NATO and the EU--Koka described his personal and party's role as advocates for reform. Reluctant to give specifics on future reform prospects, Koka claimed he would be able to complete energy liberalization by the end of the year.

3.(C) Because of various ideological differences with MSzP, Koka held that, while each party needs the other, the coalition is based on compromise. Koka acknowledged the risk in being heavily associated with transparency and reform, but believes he provides the essential cover for Prime Minister Gyurcsany to support the reform agenda, an agenda that SzDSz is not powerful enough to enact on its own. In return, SzDSz provides essential votes for a Parliamentary majority. Koka attributes the SzDSz party vote condemning the slow pace of reforms as the prime motivator behind recent movement on

health care and energy reform. Progress on reform is an existential issue, then, for SzDSz, and the reform vote came when it might have pulled out of the coalition if further action was not taken. All agreed that Gyurcsany lacks support of his full party, as MSzP officials are comfortable with a corrupt status quo. Koka painted the picture of a strong bond between himself and the Prime Minister that forms the essence

of the coalition, but then described this as a "working relationship," underscoring his portrayal of a decidedly independent SzDSz.

4.(C) Szent Ivanyi called close calls on breaking up the coalition "surprisingly frequent." Koka spoke in grave terms about more overt cooperation with Russia, a possibility in MSzP circles that is nearly a make-or-break issue for SzDSz. Presumably, the Prime Minister is well aware of these issues, and has consciously cast his lot with SzDSz. In a worst case scenario where SzDSz felt it must withdraw from the coalition, both Koka and Szent Ivanyi said that MSzP has "bought" enough votes to maintain a slim majority in Parliament.

#### Russia, Nabucco, Accountability( It's Ideological

5.(C) Despite occasionally being called an "American agent," Koka argued it would be mistaken to assume SzDSz based its policies more on an alliance with the US than upon its liberal ideals. "Hungary has made its choice for NATO and the European Union," and because "there is no third way," SzDSz policies would therefore promote more transparent values and preclude special accommodations for Russia. At the European Parliament, Szent Ivanyi proudly highlighted his own involvement in a pro-Nabucco caucus. On a serious note, Koka

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described the reluctance until now to look into secret files from the prior regime as symptomatic of a systemic problem, while at the same time welcoming any current efforts to open the files. SzDSz would support basing of C-17 aircraft at Papa, although the MSzP Ministry of Defense has the lead on this issue.

#### Continuity, Consolidation of Power

6.(C) In discussing his announced resignation by December, Koka candidly revealed that he has selected his Chief of Cabinet Csaba Kakosy (strictly protect) as his replacement, but also revealed plans to delay naming him for fear of giving opponents time to launch a successful campaign against Kakosy before he takes office. Describing Kakosy as "more operational than political," Koka plans to retain key government responsibilities while also significantly upgrading the portfolio of his deputy minister, Abel Garemhegyi. Throughout all the changes, all three SzDSz officials pledged uninterrupted ongoing cooperation with the US on shared interests, notably transparency.

7.(C) Koka emphasized that his goal in government is to be involved with steering major, long-term strategic decisions. To that end, he currently is part of a "cabinet within a cabinet" or "steering committee" consisting of PM Gyurcsany, Ministers Kiss, Szekeres and Veres, and Gyurcsany chief of staff Gyorgy Szilvassy, and plans to retain this role even as he leaves the ministry. He plans to retain certain portfolios such as transparency, and said he would continue to lead Ministry policy on "big issues." When Merenyi departs for his ambassadorial duties in Rome, Garemhegyi will take on his international trade and business development duties. More striking, Koka plans to centralize authority in Garemhegyi for all trade, export, and tourism promotion, currently shared with the Ministries of Agriculture and Municipalities.

#### Polling, Strategies

8.(C) Koka and Szent-Ivanyi each described voter outreach and campaign-orientation as their main priorities. Koka plans to spend one to two days a week in the countryside, while Szent-Ivanyi has shifted his home base back to Budapest from Brussels as he assumes the party role of foreign policy chief. Acutely aware of the five per cent threshold for Parliamentary representation, Koka noted that SzDSz polled only 3.2 per cent of the vote when they in fact reached the threshold in the 2006 elections. He sees his ministry and party as being a bridge between "old style politicians" of MSzP and younger voters, not least because Koka himself is a younger politician than most of his MSzP colleagues. Contrasting SzDSz with Fidesz, Koka estimated that SzDSz had a potential of reaching 25 per cent of the electorate for whom liberal ideals resonated, but that they are modestly targeting eight to ten per cent of the electorate for the 2010 general elections. Koka believes he was elected SzDSz president not because he was a great politician, but because he had the skill and vision to re-organize and re-energize SzDSz going into the next election cycle.

#### Referendum

9.(C) Accusing Fidesz of "attacking an essential instrument of Hungarian democracy," Koka nonetheless detailed a strategy to win the referendum, focusing on rewording some of the questions, apparently a reference to a non-partisan linguist who rephrased each of the Fidesz questions into more pro-coalition formulations. This, combined with better public outreach on all issues, including a bid to reduce the size of Parliament, would present a significant resource challenge to both sides. Preparing for the worst, Koka said that no referendum result could turn back any of the reforms.

Koka discounted the possibility that the PM or even the coalition would fall following a bad referendum outcome. Koka and Szent-Ivanyi agree that the real test of the coalition will come after the European Parliament elections several months before the 2010 general election.

FOLEY